

News Release



Controller of the State of California - Kathleen Connell

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For Immediate Release

STATE CONTROLLER KATHLEEN CONNELL EXPRESSES CONCERN OVER THE PROPOSED \$12.4 BILLION BOND FINANCING PROPOSAL

Immediate General Fund Repayment is in Doubt

Sacramento, CA, June 27, 2001 – State Controller Kathleen Connell today announced that the demands placed on the State's Electric Power Fund may prohibit the Administration from making an immediate repayment to the State's General Fund from the proceeds of the upcoming \$12.4 billion Bond sale.

Connell stated, "It appears the Administration has no intention of immediately repaying the General Fund and it will continue to bear the burden of the past and future energy purchases, regardless of the interim loan arranged by the Treasurer."

To date, expenditures from the Electric Power Fund totaled more than \$7.2 billion, which have been paid for with taxpayers dollars from the General Fund. An additional \$4.5 billion, from interim bridge loans, has also been transferred to the Electric Power Fund to pay for current purchases.

Connell explained that, "If the proceeds from the proposed \$12.4 billion Bond sale in September are to be used to repay the bridge loan as well as the General Fund, as intended by the Legislature, the Electric Power Fund will be out of money during the first week of December."

"We now find ourselves in an untenable situation. If the Administration were to follow the directives of the Legislature, the Electric Power Fund will be forced to borrow from the General Fund again in December.

Connell further noted that, "If, on the other hand, the General Fund is not immediately repaid, the State will have to borrow an additional \$6.2 billion so that the General Fund may be made whole and critical State programs may be continued.

In regard to the Administration's consulting and financial services contracts, Connell added, "I am also extremely concerned with what appears to be a continuing trend in self-serving contracts issued by the Administration."

The Controller explained that the Administration's contract with the Blackstone Group and Saber Partners is for a flat monthly fee of \$275,000. Moreover, the contract provides for an additional fee for the firms if they are able to secure the purchase of the assets of PG&E, San Diego Gas and Electric, and/or Southern California Edison. "The total estimated fee, to be paid from future Bond proceeds, could easily exceed \$14 million," noted Connell.

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“It is unconscionable for firms and/or individuals to be representing themselves as consultants to California when their compensation is derived from bailing out utilities. It is professionally and ethically questionable as to whether these individuals can function in a dual capacity as independent financial advisors and, at the same time, as placement officers for the deal they are advising on.”

Connell noted that the contract authorizes the contractor to, among other things:

1. Price the utilities assets; and
2. Assist in the negotiations and develop a general strategy regarding an asset purchase.

The consultants are then entitled to a fee based upon the valuation and sale of the utilities’ assets to the State. According to the terms of the contract, the fee can be \$14 million or more and is to be paid from the proceeds of any bond ultimately issued to purchase those assets.

“This arrangement calls into question the validity and independence of any financial data provided by these advisors. It is clearly in their interest to value these assets at the highest amount possible,” Connell added.

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**To arrange interviews with State Controller Kathleen Connell, or to
obtain a copy of the Contract, contact Stacey Ragland (916) 445-2636**